SASKATCHEWAN DIVERSIFICATION CORPORATION

1990–91 ANNUAL REPORT

SASKATCHEWAN DIVERSIFICATION CORPORATION

ANNUAL REPORT

For the Period Ended
March 31, 1991

92-07437/

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LETTER OF TRANSMITTAL

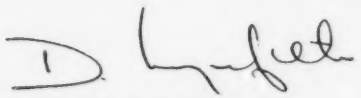
Regina, Saskatchewan
April 6, 1992

To Her Honour
The Honourable Sylvia O. Fedoruk, O.C., S.O.M
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Diversification Corporation for the period ended March 31, 1991. The Financial Statements have been duly audited by the Corporation's auditors.

Respectfully submitted,



Dwain M. Lingenfelter
Minister Responsible
Saskatchewan Diversification Corporation

SASKATCHEWAN DIVERSIFICATION CORPORATION

(details as at March 31, 1991)

BOARD OF DIRECTORS

Honourable L.H. Hepworth
Chairman

Honourable G. J. Schmidt
Vice-Chairman

Honourable G. M. McLeod

Honourable J.C. Klein

Mr. A. Wakabayashi

SECRETARY TO THE BOARD

Mr. I.D. Disbery

CORPORATE OFFICERS

Mr. H.L. Kutarna	President
Mr. T. W. Douglas	Vice-President

SASKATCHEWAN DIVERSIFICATION CORPORATION

FORMATION

The Saskatchewan Diversification Corporation (SDC), a share–capital corporation under The Business Corporations Act of Saskatchewan, was formed in April 1990 as a wholly–owned subsidiary of CIC Industrial Interests Inc., a wholly–owned subsidiary of Crown Investments Corporation of Saskatchewan – a provincial Crown corporation.
SDC replaced and assumed the responsibilities of the former Economic Development Coordination Group (EDCG).

MANDATE

To seek partnerships with private business to expand and diversify Saskatchewan's economic base.

OBJECTIVES

The objectives of the Corporation are to:

- coordinate and consolidate the Government's economic diversification activities;
- assist the Economic Diversification Committees(Ministers – Deputy Ministers/ Presidents) in implementing economic diversification projects;
- ensure that Saskatchewan producers and suppliers fare well in the field of public purchasing; and,
- administer the Government's Community Bond Program.

ORGANIZATION

In furtherance of its objectives, the Corporation had the following functions:

- **Equity Reserve:** a pool of funds for equity financing specific projects;
- **Project Coordination Unit:** to monitor the status of economic diversification activities;
- **Buy Saskatchewan Agency:** to help assist provincial suppliers' interests vis–a–vis public purchasing;
- **Community Bond Office:** to administer the Program which allows residents to invest in their community;
- **World Centre:** to facilitate the partnership of provincial and federal governments and the private sector at increasing economic returns in agriculture through research and development;
- **Special Advisor(Ottawa):** to promote the province as a location for new business and industry; and,
- **Northern Advisor:** to provide services involving Northern economic development and aboriginal issues.

CORPORATION ACTIVITIES

The following sections provide some details of the activities undertaken by SDC during the 1990–91 fiscal year.

Equity Reserve

Details of the investments made by the SDC Board of Directors during the Report period can be found in Notes 4 and 5 to the financial statements.

Project Coordination Unit

The Unit's function was to coordinate and consolidate the economic diversification and development activities of the various government agencies in order to promote a "one agency – one program" focus.
The unit maintained a Project Management Database containing information by year–end on over 1600 economic diversification projects. In the period January 1990 – March 1991, the economic development agencies reported on 674 completed projects and had an influence on the creation or maintenance of some 4,540 jobs and $719 millions of investment.

Buy Saskatchewan Agency

The Agency's commitment to ensure that Saskatchewan producers and suppliers fare well with respect to public purchasing resulted in accomplishments in the following areas:

- Contracts for individual firms
- Awards from major projects
- Saskatchewan MADE Program
- Quality Assurance Programs
- Offset Agreements
- Defence Sector Contracts

Community Bond Office

The Community Bond Program was launched in May 1990 with passage of The Community Bonds Act. Community Bonds raise local capital for equity investment in commercially viable community economic development projects. The Community Bonds Act was administered jointly between the staffs of Economic Diversification and Trade, and SDC.

At fiscal year–end:

- there were 49 Community Bond Corporations, with 56 more anticipated;
- there were 40 Community Bond projects in progress; and,
- 906 Saskatchewan people had invested over $1 million in their communities through the two bond offerings completed.

World Centre

The objective of the World Centre Office was to facilitate and promote the establishment of an internationally recognised Centre for agricultural science and technology. This was accomplished by a cooperative effort between federal and provincial governments and multi–national agribusiness leaders who committed to the establishment of an International Centre for Agricultural Science and Technology (ICAST). The establishment of ICAST was announced on March 15, 1991.

Special Advisor (Ottawa)

The position of Special Advisor to the Premier on Economic Diversification was established in Saskatchewan's Ottawa Office in July 1990 as a Division of the Corporation, with its activities funded through the SDC budget as approved by

the SDC Board. The Special Advisor was tasked to market Saskatchewan expertise and products, and the province as a location for new and expanding business and industry; also to identify and develop leads for new business and industrial establishments for the province. The position was disestablished and the Office closed on February 6, 1991.

Northern Advisor

Intertec Management was retained to provide services in the fields of Northern economic development and Aboriginal development. Areas included were:

- Transfer of Northern Farms from government;
- Establishment of Green Lake Trust;
- Norsask Ltd. and Green Lake Sawmill negotiations; and,
- Indian and Metis policy advice.

SASKATCHEWAN DIVERSIFICATION CORPORATION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Saskatchewan Diversification Corporation (the Corporation) in accordance with generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Ernst & Young, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

On behalf of the Saskatchewan Diversification Corporation.

William F. Allcock
Acting President

AUDITORS' REPORT

To the Shareholder of
Saskatchewan Diversification Corporation

We have audited the statement of financial position of Saskatchewan Diversification Corporation as at March 31, 1991 and the statements of operations and reinvested earnings, and cash flows for the eleven months then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly the financial position of the company as at March 31, 1991 and the results of its operations and the changes in its financial position for the eleven months then ended in accordance with generally accepted accounting principles.

Ernst + Young

Regina, Canada
May 15, 1991

Chartered Accountants

SASKATCHEWAN DIVERSIFICATION CORPORATION

STATEMENT OF FINANCIAL POSITION

As at March 31, 1991

ASSETS

Current:	
Cash	$ 172,384
Grants and accounts receivable	407,447
	579,831
Notes receivable (Note 3)	55,000
Investments - equity basis (Note 4)	500,000
Investments - cost basis (Note 5)	500,000
Fixed assets (Note 6)	211,500
	$1,846,331

LIABILITIES AND SHAREHOLDER'S EQUITY

Current:	
Accounts payable and accrued liabilities	$ 474,232
Salaries payable	105,499
	579,731
Deferred grant revenue (Note 7)	211,500
	791,231
Shareholder's equity:	
Share capital (Note 8)	100
Contributed surplus (Note 7)	1,055,000
Reinvested earnings	-
	1,055,100
	$1,846,331

Commitments and contingencies (Note 9)

(See accompanying notes)

Approved on behalf of the Board:

Director

Director

SASKATCHEWAN DIVERSIFICATION CORPORATION

STATEMENT OF OPERATIONS AND REINVESTED EARNINGS

For the Eleven Month Period Ended March 31, 1991

Revenue:	
Operating grants (Note 7)	$6,536,847
Interest revenue	8,209
Other revenue	5,743
	6,550,799
Expenses (schedule):	
Accommodation	358,004
Administrative	937,901
Depreciation	30,063
Employee expenses	281,904
Furniture and equipment costs	131,632
Office expenses	218,808
Professional fees	1,781,398
Salaries and benefits	2,141,970
Special projects (Note 10)	669,119
	6,550,799
Net earnings, representing reinvested earnings, end of period	$ -

(See accompanying notes)

SASKATCHEWAN DIVERSIFICATION CORPORATION

STATEMENT OF CASH FLOWS

For the Eleven Month Period Ended March 31, 1991

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Net earnings	$ -
Add non-cash items:	
Depreciation	30,063
Loss on disposal of fixed assets	12,560
	42,623
Net changes in non-cash and other items relating to operations:	
Grants and accounts receivable	(407,447)
Accounts payable and accrued liabilities	474,232
Salaries payable	105,499
Deferred grant revenue	211,500
Cash provided by operating activities	426,407
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES	
Increase in notes receivable	(55,000)
Increase in investments - equity basis	(500,000)
Increase in investments - cost basis	(500,000)
Purchase of fixed assets	(280,619)
Proceeds on sale of fixed assets	26,496
Cash used in investment activities	(1,309,123)
CASH PROVIDED BY FINANCING ACTIVITIES	
Proceeds from share issue	100
Increase in contributed surplus	1,055,000
Cash provided by financing activities	1,055,100
Net increase in cash during period, representing cash position, end of period	$ 172,384

SASKATCHEWAN DIVERSIFICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1991

1. Significant Accounting Policies:

Investments

Saskatchewan Diversification Corporation (the Corporation) accounts for share investments in which it exercises significant influence but has less than a controlling interest using the equity method whereby the original cost of the Corporation's investment is adjusted for its proportionate share of the investee's net earnings or losses and reduced by dividends received.

The Corporation owns 53.3% of Trinitel International Corporation at March 31, 1991. The Corporation has formal plans to reduce its investment in this corporation and therefore accounts for the investment using the equity method.

The Corporation accounts for share investments where it does not exercise significant influence using the cost method. Dividends from these investments are recorded as income when received.

Where there has been a decline in the value of an investment that is not considered temporary, the investment is written down to its net realizable value.

Grants

The Corporation receives grants from its parent corporation, CIC Industrial Interests Inc. (CIC III), for its operating and capital requirements. These grants are advanced to the Corporation as required throughout the year. The grants are recorded as operating revenue to the extent necessary to fund the operating expenses of the Corporation during the current period. Grants received to finance the acquisition of long-term investments and notes receivable are included in contributed surplus which will be credited to operations only to the extent required to recognize a corresponding write-down of an investment to its net realizable value.

Deferred Grant Revenue

Grants provided by CIC III to finance the acquisition of fixed assets are included in deferred grant revenue when received and are amortized into income on the same basis and over the same period as the related fixed assets are depreciated.

SASKATCHEWAN DIVERSIFICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1991

1. **Significant Accounting Policies (continued):**

Fixed Assets

Fixed assets are initially recorded at cost. Normal maintenance and repair expenditures are expensed as incurred. Depreciation is provided on the straight-line basis when the asset is put into use at rates designed to depreciate the recorded cost over the estimated useful lives of the assets. Amortization on leasehold improvements is recorded over the term of the lease. Annual depreciation and amortization rates are summarized below:

Asset	Rate
Computer hardware	20%
Computer software	50%
Furniture and equipment	20%
Leasehold improvements	100%

When fixed assets are disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Gain or loss on the disposal of individual assets is recognized in income in the year of disposal and included under furniture and equipment costs.

2. **Status of the Corporation:**

The Corporation was incorporated under **The Business Corporations Act (Saskatchewan)** on December 28, 1989 as 592785 Saskatchewan Ltd. The Corporation changed its name to Saskatchewan Diversification Corporation on April 30, 1990. The Corporation commenced active operations on April 26, 1990. The Corporation is a wholly owned subsidiary of CIC III which is a wholly owned subsidiary of Crown Management Board of Saskatchewan (CMB). The Corporation's accounts are included in the consolidated financial statements of CMB. The Corporation is not subject to Federal or Provincial income taxes by virtue of this ownership.

The Corporation funds its operations entirely from operating grants received from CIC III. Consequently, the Corporation is economically dependent upon CIC III.

3. **Notes Receivable:**

Promissory note receivable from Veltek Wood Systems Incorporated with interest at 8% per annum payable on demand on or after March 15, 1993	$ 55,000

SASKATCHEWAN DIVERSIFICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1991

4. Investments - Equity Basis:

	Percentage Ownership	Fiscal Year End	
Trinitel International Corporation: 400,000 class A common shares - no quoted market value - original cost $400,000	53.3%	Dec. 31	$400,000
Canora Heavy Industries Corporation: 1,000 class B common shares - no quoted market value - original cost $100,000	48.5%	Dec. 31	100,000
Veltek Wood Systems Incorporated: 266 class A common shares - no quoted market value - original cost $2	24.3%	Sep. 30	-
			$500,000

The Corporation owns a 53.3% interest in Trinitel International Corporation (Trinitel). Subsequent to March 31, 1991, the Melville Community Bond Corporation purchased 250,000 class A common shares of Trinitel, thereby reducing the Corporation's ownership interest to 40%.

5. Investments - Cost Basis:

	Percentage Ownership	Fiscal Year End	
Sci-Tec Instruments Inc.: 100,000 class A common shares - no quoted market value - original cost $200,000	2.9%	Jan. 31	$200,000
Precision Metal Fabricating Ltd.: 57,034 class A common shares - no quoted market value - original cost $150,000	4.5%	Oct. 31	150,000

SASKATCHEWAN DIVERSIFICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1991

5. **Investments - Cost Basis (continued):**

	Percentage Ownership	Fiscal Year End	
Redvers Agriboard Industries Inc.: warrant to purchase 3% of all outstanding shares - no quoted market value - original cost $150,000	-	Undetermined	150,000
			$500,000

The Corporation, subject to an agreement with Redvers Agriboard Industries Inc. (RAII), has purchased a warrant entitling the Corporation to purchase 3% of all shares issued by RAII, at the time of exercise, without further payment. The agreement provides RAII the option to buy-back the warrant at its original cost, plus accrued interest at 14% per annum.

6. **Fixed Assets:**

	Cost	Accumulated Depreciation	Net Book Value
Computer hardware	$179,375	$ 19,704	$ 159,671
Computer software	21,573	5,718	15,855
Furniture and equipment	4,723	764	3,959
Leasehold improvements	32,015	-	32,015
	$237,686	$ 26,186	$ 211,500

7. **Deferred Grant Revenue:**

Balance, beginning of period	$ -
Grants received	7,803,347
Recorded as operating grant revenue	(6,536,847)
Recorded as contributed surplus	(1,055,000)
Balance, end of period	$ 211,500

SASKATCHEWAN DIVERSIFICATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1991

8. Share Capital:

Authorized:
Unlimited number of common shares

Issued and outstanding:

100 common shares	$ 100

During the period, the Corporation issued 100 common shares to CIC III for $100.

9. Commitments and Contingencies:

The Corporation had the following significant commitments and contingencies as at March 31, 1991:

a) Prior to March 31, 1991, the Board of Directors had approved purchases of investments in various corporations totalling $1,062,000.

b) Outstanding commitment of $72,600 for a consulting contract entered into during the period.

c) The Corporation is contingently liable for a loan guarantee of up to $300,000 to Trinitel.

d) The Corporation is contingently liable as guarantor for 50% of a performance bond of $790,800.

10. Special Projects:

Special projects include the following:

TCCS Project	$ 264,127
Northern Advisor Project	152,042
Flax Council Project	150,000
Prairie Aerospace Ltd.	95,002
Other	7,948
	$ 669,119

The Corporation owns 2 common shares (original cost $2) and 95 preferred shares (original cost $95,000) of Prairie Aerospace Ltd. (PAL). As at March 31, 1991, PAL was liquidating its assets and winding down its operations. As a result, the Corporation has reduced its investment in PAL to nil to reflect the expected net realizable value of the investment. Any further financing provided to PAL will be expensed as incurred.

SASKATCHEWAN DIVERSIFICATION CORPORATION

SCHEDULE OF EXPENSES

For the Eleven Month Period Ended March 31, 1991

	Project Coordination Unit	Buy Saskatchewan Agency	Ottawa Office	Community Bond Office	World Centre (ICAST)	Total
Accommodation	$ 84,831	$ 171,432	$ 44,181	$ 50,003	$ 7,557	$ 358,004
Administrative	46,310	207,346	19,942	633,479	30,824	937,901
Depreciation	23,348	5,977	738	-	-	30,063
Employee Expenses	51,476	102,744	82,711	18,648	26,325	281,904
Furniture and Equipment Costs	62,384	15,522	22,960	29,268	1,498	131,632
Office Expenses	43,271	102,169	29,691	36,289	7,388	218,808
Professional Fees	1,003,894	63,169	53,742	610,600	49,993	1,781,398
Salaries and Benefits	440,653	1,216,767	215,465	180,987	88,098	2,141,970
Special Projects	661,169	7,500	-	450	-	669,119
	$2,417,336	$1,892,626	$ 469,430	$1,559,724	$ 211,683	$6,550,799